

Ex. 3

# D-Insurance: City of Detroit Insurance Company Feasibility Study

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The limited provider network and pre-authorization would address two significant issues related to PIP coverage in Detroit. The first is that the charge for medical procedures paid under PIP is significantly higher than the charge for medical procedures paid under Worker's Compensation or Medicare. The second relates to overuse and potential abuse of PIP coverage.

For many common medical procedures, Michigan medical providers charge no-fault insurers two to five times more than rates charged for the same procedure by Medicare.<sup>1</sup> A table of medical procedures and associated reimbursements under No-Fault, Medicare and Worker's Compensation is shown in Attachment 1.

In addition, no-fault premiums in Michigan may also be inflated by overuse of benefits, the filing of fraudulent or excessive claims, and legal fees generated by excessive litigation. Typical patterns of fraud or overuse involve hard-to-verify injuries and large numbers of visits to providers of alternative medical therapies.<sup>2</sup>

The problem of overuse is particularly acute in Detroit, where

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1. the average frequency of PIP claims in Detroit is twice the frequency in the suburbs (12 per 1,000 exposures vs. 6 per 1,000 exposures),
  2. average severity of PIP claims in Detroit is roughly twice the average severity in the suburbs (\$59,000 vs \$30,000), and

The creation of a closed network with pre-authorization will provide the D-Insurance carrier with the ability to negotiate rates with medical providers, to limit excessive or unnecessary treatment and avoid litigation. Therefore, we believe that the ultimate rates negotiated would move in the direction of the Worker's Compensation schedule. As can be seen in Attachment 1, Worker's compensation medical provider reimbursements are 11% - 77% lower than reimbursements under PIP based on the type of medical procedure.

Pinnacle also performed a search for studies that estimated the cost savings associated with Preferred Provider systems. Though many of the studies are somewhat dated because Preferred Provider options were introduced roughly 15 – 20 years ago, Pinnacle did find a study by The Robert Wood Johnson Foundation<sup>3</sup> that provided savings estimates from introducing a PPO. The estimated savings from this study were 12 – 14%.

<sup>1</sup> Citizens Research Council of Michigan, October 2013 report "Medical Costs of No-Fault Automobile Insurance," p. 7.

<sup>2</sup> Michigan Chamber of Commerce, April 2011 study titled "The High Costs of Michigan's No-Fault Auto Insurance - Causes and Implications for Reform," p. 17.

<sup>3</sup> Robert Wood Johnson Foundation. "Preferred Provider Organizations – Are They Better at Keeping Health Costs Down?" January 1, 2001.